TAX INCREMENT FINANCING (TIF)
FREQUENTLY ASKED QUESTIONS

- **Why do communities need TIF?**
  Tax increment financing is a tool that state lawmakers gave local governments more than 20 years ago to help them revitalize areas which were "run-down" or to jump-start economically sluggish part of the City. With this tool, financially strapped cities can make the improvements they need, like new roads, sidewalks, streetscape, sewers, and provide incentives to attract new businesses and help existing businesses expand, without tapping into general funds or raising taxes. New businesses mean more jobs, more customers, and in turn, more private investment.

  As a result, the TIF area itself improves and property values go up. Without TIF benefits, a deteriorating area will not improve. Businesses do not sink capital into decaying areas and most local governments cannot afford the needed costly improvements without raising taxes. But in a TIF area, dollars for improvements are generated by the development. Specifically, money for infrastructure improvements comes from the growth in tax revenues – the tax increment.

- **What is a "Tax Increment"?**
  In simple terms, a tax increment is the difference between the amount of property tax revenue generated before the TIF area designation and the amount of property tax revenue after TIF designation. Establishment of a TIF does not reduce property tax revenues available to the taxing jurisdictions. Property tax collected on properties included in the TIF at the time of its designation continue to be distributed to the school district, county, city, and all other taxing bodies in the same manner as if the TIF did not exist. Only property taxes generated by the incremental increase in the value of these properties after that time are available for use by the TIF.

- **Are TIFs widely used?**
  Yes. Currently, thousands of TIF districts operate nationwide in the US, from small and mid-sized cities, to the State of California, which invented tax increment financing in 1952. California maintains hundreds of TIF districts and leads the nation in debt issued through tax increment financing. 49 states and the District of Columbia have enabled legislation for tax increment financing. Arizona is now the only state without a tax increment financing law. While some states, such as California and Illinois, have used TIF for decades, many others have only recently passed or amended state laws that allow them to use this tool.

- **Won't approval of a TIF project mean less money to the taxing jurisdictions over the life of the TIF?**
  Taxing entities continue to receive the current base level of taxes plus a portion of the incremental increase in taxes attributable to the project. Over the life of the project, taxing entities will receive <u>more revenue</u> than is currently being generated if projects are not built.

- **What is the role of the TIF Commission?**
  The role of the TIF Commission is an advisory one. It has a function very similar to that of a planning and zoning commission. The TIF Act reserves final approval of the redevelopment plan and the redevelopment project to the City Council. However, the TIF Act requires that the TIF Commission hold a public hearing regarding the redevelopment plan and redevelopment project that the City has under consideration. Thus, the TIF Commission is the body that initially receives input from the public, affected taxing districts, and property owners concerning the redevelopment plan and projects that are being contemplated for TIF designation by the City. The TIF Commission must, within 30 days following the public hearing, make a recommendation to the City Council whether or not to adopt the redevelopment plan or approve the redevelopment project.

  The TIF Commission must make the following determinations on any project requesting the use of TIF:

  - TIF can only be used for redevelopment projects that would not be reasonably expected to occur without the assistance of TIF (the "but for" test).

  - The redevelopment area much be determined by the city or county to be either a "blighted area," "conservation area," or "economic development area" as defined by the TIF Act.

  - The redevelopment plan must conform to the general development plans of the City.

  - A cost benefit analysis must be completed and show that the economic benefits flowing to the City and other taxing districts as a result of the TIF plan are greater than the costs.

  Projects using TIF must have plans approved by both the TIF Commission and the City Council.

- **How does the program work?**

  - Property taxes are frozen for up to 23 years (maximum life of a TIF project). Increases in city and county taxes due to new construction, rehabilitation and infrastructure improvements from the project are abated for up to 23 years.

  - Instead, property owners make PILOTS (Payments In Lieu Of Taxes), for the amount of the taxes abated, to a special allocation fund as well as 50% of all local Economic Activity Taxes (EATs) (e.g. sales, utility, and earnings taxes) generated within the project. These funds are used to reimburse the developer for approved project costs.

  - Any overages in PILOTS are reallocated to the appropriated taxing districts.

- **Has the City developed any criteria (other than statutory requirements) to evaluate projects requesting TIF?**

  Yes. Policy Resolution PR47-08 was passed by the City Council on March 17, 2008. Some of the chief criteria include:

  - "But-for" test.
  - Total TIF assistance not to exceed 20%.
  - Public infrastructure improvements favored.
  - Applicant has financial and technical ability to complete the project.
  - Developer equity of at least 15%.
  - Shall not impact the City's credit rating.

  In addition, projects will be favored which:

  - Create jobs exceeding median income levels.
  - Serve as a catalyst for future development.
  - Should stabilize areas that are likely to experience deterioration.
  - Should encourage an inflow of customer or clients.
  - Fulfill a significant housing need without impacting public services and facilities.
  - Use green building standards.